



City of Seattle
Seattle Public Utilities

Memorandum

To: Councilmember Jean Godden, Chair Libraries, Utilities and Center Committee
CC: Seattle City Council
From: Ray Hoffman
Date: June 4, 2013
Subject: Status Report on Internal Controls Implementation

Seattle Public Utilities (SPU) presents this quarterly update on the status of our work to implement the Internal Controls recommendations.

Background

In 2012, SPU underwent a large-scale effort to review all financial internal controls. This effort included three external audits and multiple internal assessments, which resulted in 98 recommendations for improvement. In late 2012, Council accepted SPU's strategy to address the recommendations through a four-year work plan (2013 – 2016). The work plan schedule considers the connections between various recommendations and aligns with major technological upgrades and resource availability. While the primary goal is strengthening financial controls, SPU's approach also focuses on improving efficiencies and enhancing customer service.

Foundational Efforts

SPU has made significant progress on efforts that provide the foundation for implementing the work plan. These efforts include:

Hiring processes – SPU has initiated a large number of actions in the first half of 2013 with the help of six additional resources approved by Council during last year's 4th quarter supplemental budget process. We successfully filled five of these positions, and the remaining position is in the initial stages of the selection process.

Comprehensive redesign and restructuring – SPU's Finance Division completed a restructure of roles and responsibilities to incorporate additional internal controls functions. In addition, we continue to assess options for a new business model that will centralize and simplify development services activities. During the 2nd quarter, the development services redesign team:

- conducted a survey of customer needs;
- assessed current processes and service provisions;
- conducted site visits and consulted with other cities; and
- developed a new business model framework with redesign principles, goals and objectives.

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The customer survey, which focused solely on the development community's interactions with SPU, revealed a fairly high level of dissatisfaction with SPU approaches. To address these concerns, SPU will engage with survey respondents via technical advisory groups (TAGs). The TAGs will review business redesign concepts and pilot test changes before finalizing new processes.

The site visits to Kirkland, Tacoma, and Portland exposed a common "One Stop Shop" approach. Despite development challenges similar to those of Seattle, these cities demonstrate a customer service strategy focused on developer success and leveraging development for infrastructure needs.

Next steps for the redesign effort will focus on defining new business processes, identifying related staffing impacts, and initiating work with other City departments on further alignment possibilities. SPU plans to implement a new approach in 2014.

Specific Tasks in Progress

Specific work plan tasks are also in progress. Those tasks include:

- Credit card assessment – SPU completed the review and assessment of overall requirements and practices related to credit card issuance, use, transaction approval and program administration. Policy and procedure changes are in the implementation phase. To date, we have canceled 28 credit cards. We plan to revoke additional cards by the end of the third quarter.
- Grants – SPU reallocated resources and centralized financial tasks related to grants into a single point of contact. We anticipate streamlining grant application processes in the third quarter.
- Memorandums of Agreement (MOAs) – In cooperation with the Law department, we defined six types of MOAs and the typical parties to each. We also proposed policies for review and approval levels for each type. Next steps include finalizing policy decisions, documenting operating procedures and developing standard agreement templates.
- Non-sufficient funds (NSF) checks – SPU is working with City Treasury to clarify roles and responsibilities and refine processes to ensure timely access to NSF documentation. This collaborative effort has so far resulted in a sharp decrease in notification time for utility account NSFs, which now averages fifteen days compared to the previous 30 days or more. Next quarter, we plan to explore options to automate processes and convert transactions from paper to electronic.
- Accounts Payable controls – Several changes are underway to improve controls over payments and payables. This quarter, SPU drafted and tested procedures to ensure proper approval and support for one-time payments, including refunds and rebates. We will finalize procedures in the 3rd quarter. We also put processes in place to review aged payables to minimize the risk of incurring late fees.
- Purchasing and signature authority – SPU began a corporate-wide review of purchasing and signature authority, with the goal of clearly identifying who may commit funds and authorize payments on behalf of the organization. The first steps in this effort included analyzing spending and payment approval patterns across the department. We also made a first round of improvements to SPU's internal purchasing guidance to ensure clarity and consistency with City policies.